



May 2, 2013

Testimony for the MI House Insurance Committee

Automobile No Fault Insurance Reform

MI HB 4612 (Rep. Pete Lund)

The American Insurance Association (AIA) is the leading national property and casualty insurance trade association with over 300 member companies writing \$100 billion of insurance premiums across the country, including a substantial portion (\$757 million for private passenger automobile insurance alone) of which are in Michigan.

We urge legislators to support HB 4612, the comprehensive automobile insurance reform legislation introduced by State Representative Pete Lund, because it will control costs, enhance competition among insurers and provide long term stability to the automobile insurance system in Michigan, all of which will benefit insurance consumers in the state.

The Michigan automobile insurance system has been plagued in recent years with one of the highest average premium levels in the country, registering as the 8th most expensive state in 2010, an increase from the 12th most expensive state in 2007, according to research by the National Association of Insurance Commissioners (NAIC). Further, Insure.com presently ranks Michigan as having the second highest average car insurance rates in the country, outpaced only by Louisiana.

The high expense of automobile insurance is driven by several factors, among them: the costs for hospital procedures and treatments for “no-fault” patients, with unlimited personal injury protection (PIP) benefits, are significantly higher than what hospitals charge for workers’ compensation or other fee schedule related procedures and treatments. For example, evidence exists that some “no-fault” patients have been charged up to 400 percent more for the same tests and procedures provided to workers’ compensation claimants. The appropriate solution is to enact some form of fee reimbursement methodology that ensures equal charges for the same or similar medical procedures and treatments, as is proposed in HB 4612.

However, the most obvious factor driving the high cost of automobile insurance is the present unlimited coverage level of personal injury protection (PIP) benefits. The legislation would address this by establishing a new PIP limit of \$1 million, still the highest protection amount in the nation. Unfortunately, there is a lot of misinformation and misunderstanding about the effect of this particular provision proposed in HB 4612. Of most concern are the unfounded claims of opponents to the legislation that its enactment would leave many claimants destitute due to the newly established \$1 million limit of personal injury protection (PIP) benefits. These claims are misleading and false.

First and foremost, \$1 million in personal injury protection would still place Michigan at the very pinnacle of this type of coverage nationwide. Indeed, \$1 million in coverage would still be **20 times more than that in the next highest state, New York (\$50K mandated coverage)**. If states with lower no fault benefits than Michigan, such as New Jersey, New York, Florida or Massachusetts, would have experienced the widespread personal financial calamities and destitution that reform opponents say will

result in Michigan, why have these other states not increased their no fault personal injury protection benefits? Instead, these states have limited such benefits over time with Florida acting as recently as last year to do so. The results: widespread personal financial destitution has not occurred.

Second, according to the Insurance Service Office's (ISO) "Fast Track" data, the new \$1 million in personal injury protection coverage for Michigan residents would also be ***more than 20 times higher*** than the average Michigan PIP medical claim for last year (2012), \$45,779. Indeed, even if one added in the average for the unrelated bodily injury liability exposures, \$45,343 (2012), this legislation would still ***provide 11 times the coverage needed by consumers.***

Third, only a very small number of claims would even exceed this new PIP coverage level. According to the Michigan Catastrophic Claims Association (MCCA) only .1 percent of all persons injured in auto accidents would likely exceed the new coverage's minimum requirement. Thus, ***only 1 in 1000 people injured*** (not to be confused with residents or policyholders or insureds) might even exceed the new coverage amount. When considered against the 46,937 PIP claims, as reported by ISO last year, that would suggest a possible impact on perhaps ***47 people annually.*** And, of course, those people will not be without other resources as is noted below.

Finally, very, very few, if any, Michiganders (those with claims which may exceed \$1 million), will ever even be at risk of financial destitution or personal bankruptcy because of the hierarchy of resources which will be available for them, just as they are for citizens in every other state. These resources are available as the following options:

1. an accident victim with medical costs exceeding the PIP coverage limit may pursue a claim with the "at-fault" party's automobile insurer.
2. if the "at fault" party is uninsured or has insufficient insurance, the injured party could file an uninsured or an underinsured motorist claim against their own policy;
3. if the automobile insurance benefits sought via a claim in option 1 and 2 are exhausted, unpaid medical expenses may be recoverable under health insurance due to the expansive coverage which will soon be available (effective January 1, 2014) by virtue of the federal Affordable Care Act;
4. for any claimant age 65 or older, Medicare would cover most of the medical costs and expenses once the individual's automobile insurance and health insurance benefits are exhausted;
5. for any claimant under age 65, should all of the their PIP benefits and the foregoing options be exhausted, it will be highly likely that they will qualify as being totally physically disabled and therefore could qualify for Social Security Disability and Medicare coverage; and
6. ultimately, should an individual totally exhaust claims for existing benefits and coverage, they will likely qualify for the state's medical assistance program ("Medicaid").

This hierarchy of resources or options is (or in the case of the Affordable Care Act soon will be) utilized by virtually every other state.

At the same time, it has been projected that Michigan's insurance consumers could realize premiums lowered by \$125 per vehicle with the needed reforms contained in the bill. With the more than 6

million private and commercial motor vehicles and motorcycles registered in Michigan this would amount to approximately ***\$1 billion in total consumer savings in the first year alone.***

There are additional provisions in HB 4612 which are designed to accommodate the newly configured automobile insurance system: these include a newly formed Catastrophic Claims Corporation (MCCC) and a newly composed Automobile Insurance Fraud Authority (MAIFA). These elements, especially when combined with the coverage revisions and cost containment proposals noted above, will yield long term stability for the state's automobile insurance system and encourage heightened competition by additional insurers hoping to enter the newly reconstructed insurance marketplace in Michigan. All of these changes will benefit Michigan insurance consumers.

We urge you to support HB 4612.

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